Summary of Alliance to Save Energy Testimony before the Energy and Air Quality Subcommittee of the House Energy and Commerce Committee

The Alliance to Save Energy believes that policies and programs to advance energy efficiency must be a central focus of any sound comprehensive national energy legislation. Energy efficiency now contributes more than any single energy resource to meeting the country's energy needs, and is the quickest, cheapest, and cleanest way to meet the anticipated growth in energy demand in the U.S.

The Alliance testimony provides a discussion of the specific energy efficiency provisions included in the H.R. 6 conference report, and actions the Alliance to Save Energy believes the federal government should take to further efficiency gains in all end-use sectors.

The Alliance is developing a set of policy recommendations grouped into five areas covering all energy end-use sectors, in addition to electricity and natural gas. Specific recommendations follow:

Transportation

Reform Corporate Average Fuel Economy (CAFE) by revising fuel economy tests so CAFE reflects on-road fuel economy; redefining passenger cars to include SUVs and minivans; ending the CAFE credit for dual-fuel vehicles or revising it to require actual use of alternative fuels; and including vehicles up to 10,000 lbs gvw.

Apply a revenue neutral feebate or rebate on all new light-duty vehicles based on the anticipated fuel use by the vehicle over its life.

Provide a tax credit for highly efficient hybrid vehicles, and eliminate the small business tax deduction for SUVs.

Amend the EPAct alternative fuel vehicle fleet requirements to encourage use of hybrid and other highly efficient vehicles.

Buildings

Enact appliance and equipment standards included in the H.R. 6 conference report, in addition to new agreements.

Increase funding for the Energy Star program, update Energy Star eligibility requirements, and provide consumer tax incentives for products that go well beyond Energy Star levels.

Create a $25 million federal fund to support states achieving high rates of compliance with building energy codes.

Permanently reauthorize Energy Savings Performance Contracts, expand the program to vehicles, and increase funding for the Federal Energy Management Program.

Provide tax incentives for highly efficient new homes, improvements to existing homes, commercial buildings, heating and cooling equipment and appliances.

Industrial

Support a 10% investment tax credit for combined heat and power systems up to 15 MW, and include projects up to 50 MW.

Authorize DOE to enter into voluntary agreements with industrial companies for significant reductions in energy intensity and broaden the program to include EPA involvement.

Require medium and large businesses that emit at least 100,000 tons of CO2 in a year to begin reporting these emissions to the government.

Electric and Natural Gas Utilities

Develop a workable, cost-effective Energy Efficiency Performance Standards (EEPS) program that recognizes and addresses the differences in the political and business circumstances of states.

Create a federal Public Benefits Fund (PBF).

Grant accelerated depreciation for distribution transformers.

Encourage DOE and EPA to seek agreements from the electric and natural gas utilities to reduce fossil fuel heat rates and natural gas losses.

Cross-cutting Policy Recommendations

Overall funding for federal energy efficiency program should be doubled, with an emphasis on the most effective programs.

House Committee on Energy and Commerce
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, clause 2(g)

Your Name: Kateri Callahan

1. Are you testifying on behalf of a Federal, State, or Local Government?

NO

2. Are you testifying on behalf of an entity other than a Government entity?

YES

3. Please list any federal grants or contracts (including subgrants or subcontracts) which you have received since October 1, 2003:

N/A

4. Other than yourself please list what entity or entities you are representing?

The Alliance to Save Energy

5. If your answer to number 2 is yes, please list any offices, elected positions held or briefly describe your representational capacity held in the organization on whose behalf you are testifying:

I have not held any elected positions. I am currently the President of the Alliance to Save Energy.

6. If your answer to question 2 is yes, do any of the entities disclosed in question number 4 have parent organizations, subsidiaries, or partnerships to the entities for whom you are not representing?

No

7. If the answer to question number 2 is yes, please list any federal grants or contracts (including subgrants or subcontracts) which were received by the entities listed under number 4 since October 1, 2003, which exceed 10% of the entities revenue in the year received, including the source and the amount of each grant or contract to be listed.

FEDERAL FUNDING REC'D 2003 - PRESENT

SOURCE	GRANT AMOUNT	GRANT PERIOD
USAID (GLOBAL)	4,649,069	2003 - 2005
USAID (MUNEE)	2,272,222	2003 - 2005
U.S. DOE (RDLBPT)	229,556	2003 - 2005
U.S. DOE (RCA23)	375,000	2003 - 2004
U.S. DOE (RCEMF)	228,013	2003 - 2005
U.S. DOE (RCVASG)	6,500	2003
U.S. DOE (RE12)	275,000	2003 - 2004
U.S. DOE (REEEFE)	161,000	2003 - 2007
U.S. DOE (REFEMP)	75,000	2003 - 2005
U.S. DOE (REWC)	670,800	2003 - 2005
U.S. DOE (RETRCM)	500,000	2004 - 2005
U.S. DOA (RCGELW)	25,000	2003 - 2004
U.S. EPA (REPHSH)	465,000	2003 - 2006
U.S. Embassy-Vilnius	52,000	2003 - 2004
TOTAL	**9,984,160**	

Signature: Kateri Callahan **Date: 2/8/05**

TESTIMONY BEFORE THE HOUSE ENERGY AND COMMERCE COMMITTEE
SUBCOMMITTEE ON ENERGY AND AIR QUALITY

KATERI CALLHAN
PRESIDENT, ALLIANCE TO SAVE ENERGY

ENERGY POLICY ACT OF 2005
February 10, 2005

Introduction

My name is Kateri Callahan and I serve as the President of the Alliance to Save Energy, a bipartisan, nonprofit coalition of more than 90 business, government, environmental and consumer leaders. The Alliance's mission is to promote energy efficiency worldwide to achieve a healthier economy, a cleaner environment, and greater energy security. The Alliance, founded in 1977 by Senators Charles Percy and Hubert Humphrey, currently enjoys the leadership of Senator Byron Dorgan as Chairman; Washington Gas Chairman and CEO James DeGraffenreidt, Jr. as Co-Chairman; and Representatives Ralph Hall, Zach Wamp and Ed Markey and Senators Bingaman, Collins and Jeffords as its Vice-Chairs. Attached are a list of the Alliance's Board of Directors and its Associate members, which I respectfully request be included in the record as part of this testimony.

Energy Efficiency: A Key Resource for a Sound National Energy Future

The Alliance to Save Energy believes that policies and programs to advance energy efficiency must be a central focus of any sound comprehensive national energy legislation. Energy efficiency now contributes more than any single energy resource to meeting the country's energy needs, and is the quickest, cheapest, and cleanest way to meet the anticipated growth in energy demand in the U.S.

The Alliance is developing a package of policy initiatives intended to assist the Nation in achieving significant energy savings through pursuit of widespread and aggressive energy efficiency programs. The proposed policy initiatives will be described in an upcoming Alliance report, "Vision 2010: An Energy Efficiency Policy Prescription". The Alliance will quantify, to the greatest extent possible, the energy savings impacts of the various suggested policies.

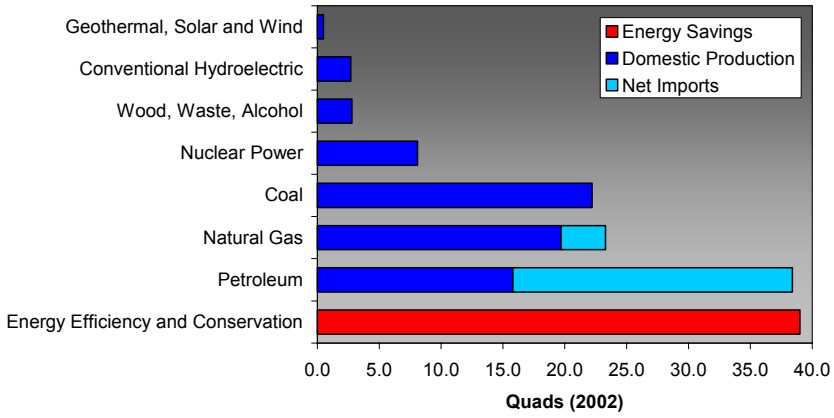
Why an energy efficiency vision?

Both natural gas and oil prices have more than doubled in the last few years. In 1999, natural gas prices were $3.10 per thousand cubic feel (mcf); today they are averaging $6.40 per mcf. The latest numbers indicate that gasoline prices are approximately 17 percent higher than this time last year. High prices have caused plant closings, loss of manufacturing jobs, and a variety of other direct and negative impacts to the U.S. economy. In a recent survey, business leaders placed energy costs as their second greatest concern after rising healthcare costs. [1]

Energy efficiency and conservation measures taken since 1973 now displace the need for 40 Quads of energy each year, exceeding the nation's consumption of petroleum. Federal policies and programs such as appliance and motor vehicle standards, research and development, and Energy Star made major contributions to these savings.

[1]The October 2004 survey was developed by Robert Half Management Resources and conducted by an independent research firm. The survey includes responses from 1,400 CFOs from a stratified random sample of U.S. companies with more than 20 employees.

Energy Efficiency: America's Greatest Energy Resource



Source: Alliance to Save Energy

Energy efficiency must play a central role in the nation's energy future. With only 2 percent of known world oil reserves within domestic borders, public opposition to increasing the generation of electricity from nuclear energy and coal, an electricity grid that is under significant and growing stress in many regions of the country, and only a modest though growing contribution from renewable energy resources, there is simply no choice. Even the National Petroleum Council has concluded that natural gas supplies from traditional North American production will not be able to meet projected demand, and that "greater energy efficiency and conservation are vital near-term and long-term mechanisms for moderating price levels and reducing volatility."

The potential to increase energy efficiency's contribution to meeting America's energy needs is significant. And for this reason, the Alliance to Save Energy strongly supports the energy efficiency provisions included in the conference report to H.R. 6, The Energy Policy Act of 2003 in recognition of the fact that these provisions will help our nation lessen its dependence on imported oil, protect the environment, and boost the economy. The Alliance does, however, believe that the energy efficiency provisions in H.R. 6 must be expanded and enhanced if we are to realize all of the potential gains that can accrue from widespread adoption of energy efficiency measures across many sectors of the economy.

Last year, the Alliance to Save Energy, in consultation with experts from industry, universities, government, and other public interest groups, initiated an examination of a wide array of energy efficiency policies directed at all energy end use sectors as well as electricity and natural gas. A priority purpose of the initiative was to identify a set of policies that would significantly reduce growth in US energy consumption by all sectors if enacted into law.

To guide our efforts, the Alliance established an achievable, but extremely aggressive energy growth reduction goal, and we also established a very short timeframe – five years – in which to achieve the reduction goal. The Energy Information Administration (EIA) has projected that energy use in the year 2010 will rise to 112 quadrillion Btus ("Quads"). The goal established by the Alliance was to reduce the projected level by 7 Quads, which represents a 50% reduction in anticipated growth over the five year period. In culling policies to those most critical and saleable, the energy savings of the package now being formulated under Vision 2010 likely will not meet the aggressive goal, though the savings will be significant. We recognize that 2010 is a very short time frame for policies to take effect—we expect that the policy package would have a much more robust impact on energy use in subsequent years.

To reach the target goal, we considered policies that could reduce energy use by approximately 5 percent in each end-use sector—residential and commercial buildings, industry, and transportation—and to reduce energy losses by 5 percent in electricity and natural gas transmission. Of the policies considered, some of the most significant savings are projected to result from cross-cutting policies that affect multiple sectors simultaneously.

Comparison of Energy Efficiency Policies in H.R. 6 Conference Report and Vision 2010

As stated above, the Alliance to Save Energy strongly supports the energy efficiency provisions in the conference report to H.R. 6, but believes that more can be done to improve energy efficiency in each of the following sectors: buildings, transportation, the electric and natural gas utilities, and the industrial sector. Listed below is a discussion of the specific energy efficiency provisions included in the H.R. 6 conference report, and actions the Alliance to Save Energy believes the federal government should take to further the efficiency gains in these sectors.

I. Residential and Commercial Buildings

Appliance and equipment standards

National appliance and equipment standards are an important and effective policy tool. They provide an efficiency baseline that American consumers can trust, provide uniform national rules for manufacturers, and slash wasteful energy consumption with one broad and effective stroke.

The federal appliance energy efficiency standards program began in 1987 and has been among the most effective of all efficiency measures. The program already has saved an estimated 2.5 percent of all U.S. electricity use representing billions of dollars of savings to America's consumers.

The conference report to H.R. 6 includes a package of new energy efficiency standards that were negotiated between energy efficiency interest groups, including the Alliance to Save Energy, and the manufacturers of products proposed for regulation. These provisions would establish standards in law for exit signs, torchiere lamps, dry-type transformers, traffic signal modules, unit heaters, and compact florescent lamps. They also require DOE to establish standards through rulemakings for ceiling fans, commercial refrigerators and freezers, vending machines, unit-heaters and batteries.

The Alliance to Save Energy believes these standards should be established, and broadened to include new agreements on commercial air conditioners, dehumidifiers, pre-rinse spray valves, ceiling fans, and commercial refrigerators and freezers.

In addition, the Alliance to Save Energy believes the U.S. Department of Energy should be encouraged to accelerate rulemakings that are years behind schedule. For example, the standard for residential furnaces was due in 1994. The most recent delay, announced in December, means that DOE will not set these standards until late 2007 at the earliest, and that the standards will not go into effect until at least 2010 – fully 16 years beyond the statutory deadline. According to a September 2004 report published by the American Council for an Energy Efficient Economy, each year of delay in just three of these national standards -- residential furnaces and boilers, distribution transformers, and commercial air conditioners and heat pumps – locks in $7.1 billion in higher energy costs for consumers and businesses.

In recognition of the fact that establishing standards requires a rigorous, time consuming, and costly rulemaking process, the Alliance also believes increased funding to the DOE standards program is critical to ensuring that the backlog in standards' rulemakings is placed on a fast track.

Energy Star

The Energy Star program represents one of the government's most successful efforts to date in advancing energy efficiency through market transformation. The Energy Star program is an entirely voluntary program that is yielding significant economic returns to our nation's consumers and significant environmental benefits to our nation as a whole. Studies estimate that every federal dollar spent on the Energy Star program results in an average savings of $75 or more in consumer energy bills; the reduction of about 3.7 tons of carbon dioxide emissions; and an investment of $15 in private sector capital in development of energy-efficient technologies and products.

The H.R. 6 conference report authorizes a voluntary Energy Star program at EPA and DOE and directs the Administrator and Energy Secretary to solicit comments of interested parties in establishing or revising an Energy Star product category; the provision requires a 9-month lead time before the implementation of any changes to the program.

The Alliance to Save Energy believes the eligibility requirements for becoming an Energy Star product should be updated to ensure that the market is encouraged toward the most efficient buildings and products. And, drawing on the success of the program, the Alliance believes that it should be expanded to cover more products and services. While not the jurisdiction of this Committee, the Alliance also believes that consumer tax incentives should be provided for products that go well beyond Energy Star levels and that funding for Energy Star is increased.

Building Codes

In a typical year, the United States builds about 1.7 million new housing units including single-family, multi-family and manufactured dwelling units. Building energy codes are a means by which states and municipalities can assure that minimum levels of energy efficiency are achieved in these new buildings. The H.R. 6 conference report does not address the issue of building codes. The Alliance to Save Energy encourages the creation of a $25 million federal fund to support states in assuring adoption and compliance with the most current and aggressive building energy codes.

Manufactured housing ("mobile homes") represents one out of 7.5 new single-family housing starts and is not subject to local building codes. Manufacturers argue that they cross state lines and shouldn't be controlled by state and local building codes; thus they are instead regulated by the Department of Housing and Urban Development (HUD). Current HUD standards have been in place since 1996 and have not been updated since then. New proposed standards negotiated with industry through the National Fire Protection Association (NFPA-501), providing modest improvements, may be adopted by HUD in the next year or two. However, recent DOE research shows that it is cost effective to build manufactured housing to current IECC model energy code specifications, adapted to the three HUD climate zones. The Alliance to Save Energy recommends that manufactured housing be required to meet the current IECC model energy code, particularly as the market segment for this product tends to be modest-to-low income consumers who can ill-afford high energy bills. The Alliance encourages Congress to update the HUD manufactured housing standards to current IECC levels. These updates would reduce energy bills of mobile home owners by 9% and reduce overall energy use in mobile homes by 3 trillion btus in 2010, increasing to 8 trillion btus by 2025.

Federal Energy Management Program

America's largest, single energy consumer is the federal government. According to the 1998 Alliance to Save Energy report, *Leading by Example: Improving Energy Productivity in Federal Government Facilities*, the federal government wastes $1 billion in taxpayer dollars each year on its buildings that use energy inefficiently.

Few federal programs have been as cost-effective as the U.S. Department of Energy's Federal Energy Management Program (FEMP). At an average cost of $20 million per year, FEMP has helped cut federal building energy waste by nearly 21 percent from 1985-1999 – a reduction that now saves federal taxpayers roughly $1 billion each year in reduced energy costs. However, much more can be done, and the Alliance supports the Federal Energy Management provisions of the H.R. 6 conference report to require further energy saving by the federal government.

A vital tool for upgrading the efficiency of the federal government is the use of Energy Savings Performance Contracts (ESPCs). This unique program allows federal agencies to contract with the private sector to upgrade the efficiency of federal buildings and pay-off the contract with the utility savings. The agency saves energy at no additional cost, the companies build their business and create jobs, and the government saves money and pollution. Unfortunately, this program sunset in 2003, and it must be permanently reauthorized immediately.

The Alliance to Save Energy is pleased that Congress provided an extension of the Energy Savings Performance Contract (ESPC) program until October 1, 2006 as part of the Defense Authorization bill (Public Law 108-375). And we support the permanent extension located in the Energy Policy Act of 2005. However, we are very concerned about the limitations placed on this program in the legislation. Capping this program at 60 projects and $300 million for DOD, VA, and DOE only will further harm the program that is just re-emerging from a costly delay in reauthorization. Due to this lapse in authority, nearly $500 million worth of energy savings projects were stalled -- harming business around the country and wasting taxpayer dollars. This is a program that should be authorized permanently to assure stability in the industry and to give federal agencies the ability to continue to upgrade facilities to the benefit of taxpayers, our nation's environment and energy security.

Once reauthorized, the Alliance believes that the program should be expanded to allow for efficiency upgrades in the federal government's mobile assets – from planes, to tanks, to passenger vehicles. For example, expansion of the program could afford the military the ability to retrofit the B-52 Bomber (which currently relies on a 1960's-era engine) or the Abrams tank (which has a 1970's-era engine). In fact, a 2002 Defense Science Board report listed over 16 weapons systems that are candidates for such upgrades, covering every service and virtually every major defense contractor. While this expansion would save oil and advance national security goals, the first step is permanently reauthorizing the ESPC program.

Tax Incentives

Providing incentives to consumers and businesses is an important policy option that can help transform markets to embrace energy-efficient technologies and practices. The Alliance to Save Energy believes tax incentives are an important piece of any balanced energy plan, and we support the energy efficiency tax incentives that are part of the conference report to H.R. 6. This package of efficiency tax incentives represents a bipartisan compromise that would benefit businesses and consumers across the country, and we recommend passage of these important incentives as quickly as possible.

Tax incentives for highly efficient new homes will show home builders across the nation that incorporating energy-efficient technologies into homes is neither as difficult nor as expensive as they now contend. Tax credits for highly efficient refrigerators and clothes washers will encourage the manufacture and purchase of energy and water-saving appliances. The tax deduction for commercial buildings will give business owners the incentive to outfit their commercial space with energy-efficient equipment.

In addition, tax credits to upgrade the efficiency of existing homes will help everyday Americans cope with volatile natural gas and heating oil prices. These incentives, in addition to the incentives for highly efficient fuel cells, combined heat and power systems, and advanced electricity metering, can play an important role in helping this nation transition to energy efficient appliances and technologies.

II. Electric and Natural Gas Utilities

Over the last two decades, states worked with regulated utilities using "Integrated Resource Planning" and demand-side management programs to avoid the need for about 100 300-Megawatt (MW) power plants. However, utility spending on public benefit programs nationwide was cut in half as states and the electricity industry prepared for expected deregulation. Two national policy strategies that could increase energy efficiency in the utility sector are: (1) a federal public benefits funds (PBFs); and, (2) a federal Energy Efficiency Performance Standards (EEPS). Neither of these two energy efficiency measures is included in the conference report to H.R. 6.

Energy Efficiency Performance Standards

Energy efficiency performance standards (EEPS) require retail electricity suppliers to meet customer needs in part through energy efficiency and load reduction programs rather than by constructing new generation and transmission facilities. EEPS can be instituted in conjunction with, or independent of, a national Public Benefits Fund (PBF).

While several states are considering creating EEPS, only two states -- Texas and Pennsylvania -- have instituted them in some form. If one were to follow the model signed by then-Governor Bush in Texas, electric and natural gas suppliers would be required to take measures to help their customers reduce consumption by a set amount each year. Utilities also could meet the requirement, in part, by reducing supply-side losses, could trade credits with other utilities, or could buy credits (the funds would be added to a public benefits fund). Savings due to lower energy use and lower prices should more than pay for the cost of the measures. For example, according to estimates by ACEEE, by 2020 a 1 percent federal EEPS would:

- Save over 340 billion kWh a year;
- Save consumers over $12 billion a year; and,
- Reduce peak electricity demand by about 68,000 MW (avoiding about 225 power plants).

Through Vision 2010, the Alliance has begun a dialogue between utilities that would be subject to any national policies on PBF or EEPs, government, academia and other stakeholders. Our goal is to develop, and present to the Congress in the coming weeks, recommendations for a workable, cost-effective program that recognizes and addresses the differences in the political and business circumstances of states.

Public Benefits Fund

Twenty-three states and the District of Columbia have created a guaranteed stream of funds for energy efficiency and other public goods via public benefit funds (PBFs). The funds are built typically from a small surcharge on electricity and natural gas bills. The programs may be administered by utilities, states, or independent organizations. Of the states that have passed restructuring laws and rules, all but two (Oklahoma, and Virginia) also have passed some form of PBF; in addition, three states (Minnesota, Vermont, and Wisconsin) have created PBFs without restructuring. Creation of a federal PBF that would provide matching funds to any state in which a PBF exists and/or would be accessible to any state with an EEPS in place could serve to encourage states to deploy such innovative techniques to advancing energy efficiency. A federal PBF could help stabilize electricity prices through reduced demand, reduce air pollution and greenhouse gas emissions, and ease the need for massive infrastructure replacement. By 2020, ACEEE estimates that a federal PBF would:

- Save 1.3 trillion kilowatt hours (kWh) a year;
- Reduce peak electricity demand by 160,000 MW (equivalent to about 500 power plants);
- Save consumers $68 billion (net after investments); and,
- Prevent greenhouse gas emissions equivalent to 96 million metric tons of carbon each year.

Transformers Tax Incentive

The energy bill conference report would provide accelerated, three-year depreciation for time-of-use meters. Time-of-use meters allow customers to shift their electricity use away from peak periods of the day when power is most expensive, which also can increase the efficiency of the power plant. In addition, the Alliance to Save Energy believes it is important to support accelerated depreciation for distribution transformers and new generation units that significantly exceed the efficiency of new transformer standards.

Voluntary Agreements

While the conference report to H.R. 6 authorizes DOE to enter into voluntary agreements with industrial companies for significant reductions in energy intensity, and to publicize the corresponding achievements, the conference report does not include a similar provision for the electric and natural gas utilities. The Alliance to Save Energy would encourage DOE and EPA to seek agreements from the entire industry to reduce fossil fuel heat rates and natural gas losses.

III. Transportation

Today, more than two-thirds of the oil consumed in the United States is used for transportation. This sector accounts for the majority of CO and NOx emissions in the U.S., and it is responsible for approximately 33% of U.S. greenhouse gas emissions. These realities, coupled with the fact that U.S. vehicle miles traveled are growing at a faster rate than vehicles and at more than twice the rate of the population, underscore the criticality of improving the efficiency of today's passenger cars and trucks immediately.

While the automotive industry has begun to introduce energy efficient transportation options, like hybrid electric vehicles, much, much more needs to be done to ensure that larger numbers of hybrids are introduced into the marketplace, and that consumers make the choice to purchase these and other energy efficient transportation technologies. Hybrids represent an immediate and more fuel efficient option for consumers of today and tomorrow, and they also can serve as a bridge to fuel cell electric vehicles of tomorrow that hold the promise of clean, sustainable mobility. Unfortunately, there are only five hybrid electric vehicle offerings to choose from in the marketplace and, while they are receiving growing attention by the media and the public, hybrids still represent less than one percent of the 17 million vehicles sold in the United States each year.

Furthermore, Corporate Average Fuel Economy (CAFE) standards have remained static for almost two decades due to political gridlock. The current standard of 27.5 miles per gallon for automobiles first applied in 1985, and the 21 mpg standard for light trucks is only 0.5 mpg above the 1987 standard (but is now set to rise to 22.2 mpg by 2007). In fact, lack of federal action, coupled with the dramatic expansion in sales of SUVs, has led to a significant drop in overall fuel economy. America's average gas mileage peaked in 1987-1988, declined for more than ten years, and is now flat.

Furthermore, and alarmingly, EIA estimates that on-road fuel economy is about 20% lower than test results used for CAFE standards. This means that consumers are receiving inaccurate information about what they might expect to realize in terms of the vehicle they purchase, and more importantly, the standards that have been set nationally – and not updated for 20 years – are not being met.

Close CAFE Loophole

Efforts in Congress to increase Corporate Average Fuel Economy (CAFE) standards for passenger vehicles have been unsuccessful since the mid-1980's. And, it appears unlikely that the 109th Congress will be the one to increase these standards. Notwithstanding this assumption, it is imperative to continue – and increase – efforts to improve the fuel economy of the vehicle fleet by reforming the current CAFE regulations through legislative and/or federal rulemakings. The fuel economy tests should be revised to better reflect real-world driving and to bring the estimates of fuel economy in line with EIA and other authoritative sources.

Second, passenger cars should be redefined to include SUVs and minivans, which are used for the same purposes, i.e. transporting people. Today, about half of all light-duty vehicles sold in America are light trucks, and most of these are SUVs and minivans. Including SUVs and minivans as passenger vehicles could increase fuel economy by 1 mpg, and save 5 billion gallons a year.

Third, the CAFE credit for "dual-fuel" vehicles, which can run on ethanol or on gasoline, should be ended or revised to require actual use of the alternative fuel. Today, dual fuel vehicles are being fueled almost exclusively – 99% of the time – with gasoline. With only 188 ethanol fueling stations in 27 states, the infrastructure does not exist to supply these vehicles with alternative fuel. This credit has encouraged manufacturers to put millions of dual fuel vehicles on the road, but is also has allowed them to put more gas guzzlers on the road, and thus increase gasoline use. The credit should be terminated or modified to require actual use of the alternative fuel.

Finally, vehicles up to 10,000 pounds should be included in CAFE. CAFE standards only apply to vehicles up to 8,500 pounds (gross vehicle weight). In fact, EPA does not even test or report the fuel economy of larger vehicles, but their mileage is generally much lower. Manufacturers are selling more and more of these super-large SUVs and pickup trucks, such as GM Hummers and Ford Excursions. The weight limit should be raised to include these heavier vehicles.

Vehicle Fuel Use Feebate

The Alliance to Save Energy encourages the Congress to consider a new, innovative approach to efficiency of light-duty cars and trucks by promoting a national "feebate" system. Such a system could impose a national security surcharge, or "fee" on inefficient vehicles, and then use the funds collected to provide a "rebate" to the most fuel efficient vehicles. The fee or rebate on new vehicles could be based upon the expected lifetime fuel use of the vehicle. Rates could be set to be revenue neutral, but the public would know that when it makes a vehicle purchasing decision, a higher price premium will be realized for the less efficient vehicle options. Such a system would reward consumers who make the choice to purchase fuel efficient vehicles; individuals who purchase gas guzzlers will pay a premium for making this purchasing decision.

Tax Incentives

Hybrid electric vehicles still carry a price premium ranging from $3,000-$4,000 per vehicle. (Further, new models coming into the market could carry an even steeper price premium.) In order to assist consumers in making the choice to purchase these energy efficient transportation options, which represent less than 1 percent of the 17 million vehicles sold per year, the Alliance to Save Energy encourages the Congress to support consumer-based tax incentives for these energy efficient technologies. Such an incentive would "level the playing field" in the market place for hybrids, and allow consumers to make the choice to purchase a vehicle that will save them money over its lifetime without having to factor in purchase price differentials. The conference report to H.R. 6 provides a tax credit ranging from $250-$3400 for hybrid and lean burn diesel vehicles based on fuel economy and gas savings, and a larger credit for heavy-duty vehicles, capped for each manufacturer. The Alliance supports this approach and hopes that the Congress will devise a meaningful package of tax incentives that will support the building of a long-term and sustainable market for hybrid electric and other fuel-efficient vehicles.

In addition, Congress also should eliminate the business deduction for SUVs (which was reduced to $25,000 last year). A federal incentive for fuel-inefficient vehicles is counter-intuitive to our Nation's energy security and environmental goals, and also negates current positive purchase signals in the marketplace, including the so-called "gas guzzler's tax" and the tax deduction for hybrid and other alternative fuel vehicles.

Fleet Requirements

The conference report to H.R. 6 includes a variety of flexibility options to assist fleets in complying with the Alternative Fuel Vehicle (AFV) acquisition requirements of the Energy Policy Act of 1992 (P.L. 102-486 aka "EPAct"). In recognition of the fact that some fleets have had a difficult time meeting these requirements, and/or they would like to comply with technologies that currently are not an eligible compliance option (e.g., hybrid electric vehicles), the Alliance to Save Energy strongly supports the provisions that would allow hybrid electric vehicles and other energy efficient transportation technologies to be an eligible compliance option.

IV. Industry

Industry accounts for one-third of all energy use in the U.S. Energy-intensive industrial plants typically have enormous energy bills, sometimes running into the millions of dollars annually. Energy efficiency improvements offer the potential for a significant return on investment for the industrial energy consumer in the form of lower utility bills. The energy bill conference report (H.R. 6) provided a 10% investment tax credit for combined heat and power systems up to 15 MW. The Alliance to Save Energy supports this tax credit, but would seek to include projects up to 50 MW.

The conference report also authorized DOE to enter into voluntary agreements with industrial companies for significant reductions in energy intensity. The Alliance supports this concept, but would broaden the program to include EPA involvement, and further, would define the program such that the voluntary agreements would seek to reduce energy intensity 2.5 percent each year from 2007-2016. Furthermore, the program should require

independent verification of all reductions below "business-as-usual", as well as a report to Congress on assistance needed to help achieve the reductions.

Finally, the Alliance to Save Energy believes that medium and large businesses that emit at least 100,000 tons of CO2 in a year should be required to begin reporting these emissions to the government. This would allow the U.S. to establish a baseline for the sector, and to benchmark progress toward reducing CO2.

V. Cross-cutting Policy Recommendations

Funding Energy Efficiency

Funding for energy efficiency R&D and deployment programs of the Department of Energy and Environmental Protection Agency should be doubled from levels provided in 2004 in recognition of not only the enormous potential that energy efficiency offers in helping to meet the anticipated growth in energy use, but also the demonstrated return on investment that such funding has yielded the government and consumers alike.

The President's overall fiscal year 2006 budget request for DOE efficiency programs is $847 million, down $21 million from the FY 2005 appropriation, and $29 million from the Administration's FY 2005 request. This continues a gradual downward trend from $913 million appropriated in FY 2002. In addition to the overall decline, there were some major changes in priorities. The President has requested significant increases for fuel cell vehicles and for biorefineries. The money for these increases was taken from other energy efficiency programs – thus there are major cuts in core research, development and deployment programs in industrial energy efficiency, buildings efficiency, and other areas. Particularly distressing is a 19% cut to the appliance standards program despite worsening delays in meeting statutory deadlines, and a 21% cut in work to improve state building energy codes

CONCLUSION

American consumers need a balanced energy policy that takes aggressive steps to save energy wherever, and whenever, it is cost-effective and feasible. Energy efficiency is our largest energy resource, and it should be our first energy priority.

The policy options identified by the Alliance, such as standards, tax credits, and federal energy management, have been proven effective on the national level. Others, such as energy efficiency performance standards and public benefits funds, have been tested in the states and we believe are ready for replication at the national level. And finally, gains in energy efficiency come largely from new technologies and improvement to existing technologies; therefore, continuing and enhancing federal programs that support research, development and deployment of energy efficient technologies and practices is imperative.

The Alliance to Save Energy applauds the fact that this Committee is taking the first steps necessary to enacting meaningful and comprehensive energy legislation in the 109th Congress. With respect to energy efficiency provisions, which must be a cornerstone of any such energy legislation, we hope that last year's energy bill conference report, H.R. 6, represents only the starting point, and that the energy efficiency provisions will be expanded and enhanced to assure that we give the American people immediate, cost-effective and sustainable assistance in addressing spiraling energy costs and an ever-less secure energy future.

ALLIANCE TO SAVE ENERGY
Creating an Energy-Efficient World

Fact Sheet

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